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21 March 1954

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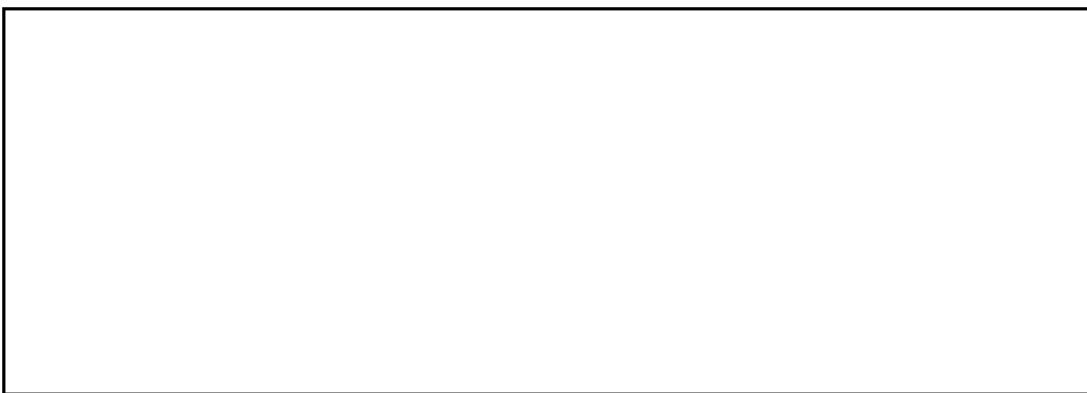
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**Office of Current Intelligence****CENTRAL INTELLIGENCE AGENCY**

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DIA and DOS review(s) completed.

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## GENERAL

1. Soviet Union protests proposed Turkish-Pakistani treaty:

25X1A [redacted] The Soviet Union's protest to Turkey on 18 March against the proposed Turkish-Pakistani treaty is a standard Soviet reaction to defense

planning in the Middle East. The protest closely parallels the Soviet notes of November 1951 and January 1952, which strongly attacked the proposed creation of a Middle East Command, even to the levying of "responsibility for the consequences."

25X1A [redacted] Turkey's reaction will probably be similar to its response to the previous Soviet notes protesting Turkey's Western relationships and orientation. It will probably reiterate the underlying peaceful presuppositions of Middle East collective security planning.

## FAR EAST

2. Japanese economic crisis predicted for this summer:

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[redacted] indicated on 23 February that he believes a serious economic crisis may develop early this summer as a result of the continuing

detérioration in Japan's foreign exchange position. He believes that this will intensify the pressures for positive steps to expand trade with Communist China.

The embassy in Tokyo comments that unless the trend toward mounting trade deficits is checked, the government will be unable to resist demands for more trade with China. It also thinks that the Chinese Communists will exploit this situation by making offers of large-scale trade on attractive terms.

Comment: The Japanese have become alarmed over a decline in exports and a substantial drop in American spending since the armistice in Korea. Japan is expected to suffer a loss of about \$320,000,000 in its foreign exchange holdings for the fiscal year ending 31 March 1954. Such a loss would leave it with approximately \$800,000,000 on that date, a sum which could fall to a critical level in a few months at the current rate of decline.

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3. Chinese Nationalist forces clash with Communists near Tachens:

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[Redacted]

On 18 March four Chinese Nationalist destroyer escort-type ships engaged a Chinese Communist force of two destroyer escort types and 13 smaller craft north of the Tachen Islands off the Chekiang coast, according to the American naval attaché at Taipei (see map, p.5). Nationalist fighter planes called to assist their naval forces were attacked by MIG-15's, which shot down the flight leader.

Comment: This is the largest engagement between Nationalist and Communist forces since the Nationalist raid on Tungshan Island last summer. It marks the first appearance of Communist jet aircraft in such a clash. This action demonstrates that the Chinese Communist air force now has sufficient training to support naval operations.

4. Chiang Kai-shek's son may become minister of national defense:

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General Chiang Ching-kuo, Chiang Kai-shek's elder son, will probably become Taipei's minister of national defense, [Redacted]

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[Redacted] He is due to be relieved as director of the armed forces' political department. The American military attaché believes that the younger Chiang would keep a "tight grip" on the political department in his new position.

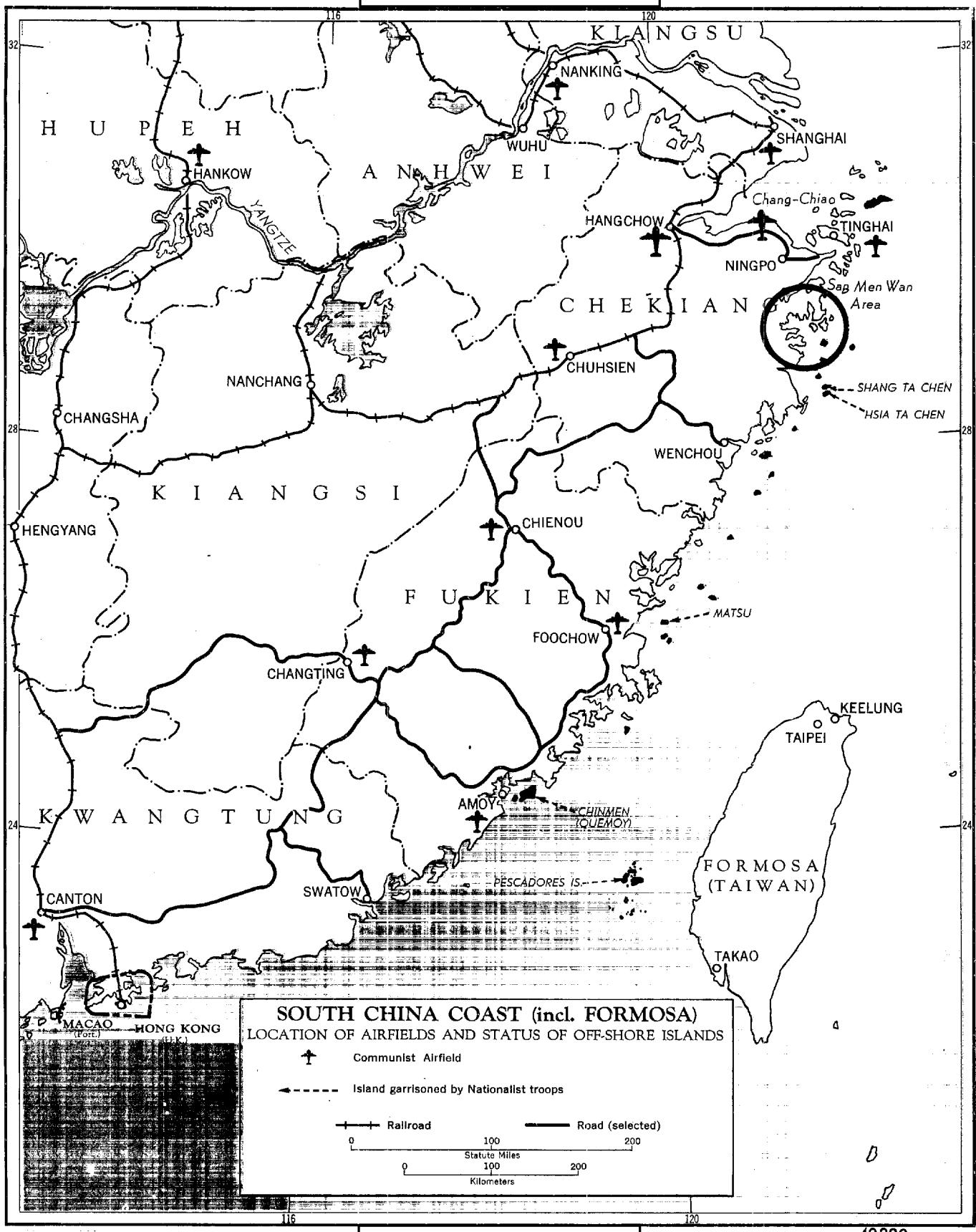
Comment: Chiang Ching-kuo is apparently being groomed as the eventual successor to his father. He might be a more effective minister of national defense than the incumbent, who is generally regarded as an undistinguished officer.

Chiang Ching-kuo is unpopular with many Chinese leaders, however, both for his growing power and for his belief in authoritarian methods. The American military advisory group on Formosa has long been critical of his political department, modeled on the Soviet political officer system.

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5. Peiping hints at five-year plan goals:

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[Redacted]

Communist China's Ministry of Fuel Industry has calculated that 80 percent more coal "will be needed" in China by 1957.

Comment: Peiping has released very little information on the goals of the present five-year plan which ends in 1957. Tentative intelligence estimates of the planned industrial expansion up to now have ranged from 60 to 100 percent.

Expansion of the coal industry can be a rough indication of plans for industrial expansion as a whole, because coal is generally used for fuel in China's industries, power plants and railroads. Therefore, a more nearly precise estimate of 1957 industrial prospects is now possible.

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#### NEAR EAST - AFRICA

##### 8. Iran offers formal renewal of American military mission contract:

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The Iranian Council of Ministers on 17 March approved a proposal of Minister of Defense Hedayat that the contract between Iran and the United States Military Mission with the Iranian Army be formally extended. The renewal, which can be accomplished simply by an exchange of notes, will extend the agreement until 20 March 1955.

Comment: The American mission has been functioning without a formal agreement since early 1952, when former prime minister Mossadeq consented only to a temporary, informal renewal. Formalization of the arrangement at this time coincides with the shah's drive for more American military aid and the rehabilitation of the Iranian army.

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9. New Israeli-Syrian border crossing difficulties feared:

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The American, British and French ambassadors in Damascus fear that the Israeli-Syrian border will be plagued by crossing difficulties similar to those on the Israeli-Jordanian frontier, as the result of a decision on 15 March by the Israeli-Syrian Mixed Armistice Commission.

The decision prohibits Syrian civilians from crossing a ten-meter strip separating Syrian territory from Lake Tiberias. They are thereby denied traditional rights of fishing and watering cattle in the lake.

Comment: If the decision stands -- and there are major obstacles to its being changed -- the Israeli-Syrian border may be the scene of incidents of the kind which culminated in such acts as the Qibya massacre of October 1953 on the Israeli-Jordanian border.

10. Tension mounting in Iraq:

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Some members of Iraq's pro-Western Nation Socialist Party are advocating association with extremist, anti-Western parties to foment disturbances which may break out at any moment, according to Ambassador Berry in Baghdad.

Many of the rank and file Nation Socialists are incensed at Prime Minister Jamali's government for allowing ex-prime minister Nuri Said, foe of their leader Saleh Jabr, to gain personal prestige by playing an important role in Iraq's current negotiations with the West on defense questions.

The extremist parties, which have been building up pressure to prevent Iraq from joining Turkey and Pakistan in a regional security arrangement, are now intensifying their opposition to the government because of a rumored forthcoming dissolution of political parties.

Comment: Any alliance of moderate and extremist elements would gravely accentuate the already mounting tension in Baghdad. It would be a triumph for the Communists, who have already succeeded in uniting leftist and rightist extremists in a "national front" against the Jamali government.

## LATIN AMERICA

### 11. Chilean cabinet considering disposal of copper surplus to Orbit:

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The Chilean cabinet has decided to seek markets for Chilean copper behind the iron curtain, as well as elsewhere, according to Labor Minister Foncea. The president of the government's Council of Foreign Trade told a press conference on 18 March that the sale of copper to Hungary and Poland on a barter basis is being considered.

Comment: Negotiations began last fall with the United States for the sale of 100,000 tons, but have been delayed by Chile's failure to pass legislation redefining the status of American-owned copper companies. Meanwhile, the total surplus has grown to 180,000 tons.

Chile faces a financial crisis because copper sales normally provide about 70 percent of the country's dollar earnings, and a large share of government revenue.

President Ibanez has consistently declared that Chile will make no direct copper sales to the Orbit. The financial crisis, together with a possible belief that general relaxation of East-West trade controls is impending, may encourage favorable consideration of recent Orbit offers.

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